

Updated Informative Digest for
Adoption of Proposed Amendments to California Code of Regulations,
Title 18, Section 1685.5, *Calculation of Estimated Use Tax - Use Tax Table*

On March 20, 2012, the State Board of Equalization (Board) held a public hearing on and voted to adopt the original text of the proposed amendments to California Code of Regulations, title 18, section (Regulation) 1685.5, *Calculation of Estimated Use Tax - Use Tax Table*, described in the notice of proposed regulatory action. The Board received one written comment regarding the proposed amendments to Regulation 1685.5 which is summarized and responded to below and in the final statement of reasons. No interested parties appeared at the public hearing on March 20, 2012, and there have not been any changes to the applicable laws or the effect of the adoption of the proposed amendments to Regulation 1685.5 described in the informative digest included in the notice of proposed regulatory action.

The informative digest included in the notice of proposed regulatory action provides:

“Prior Law

“RTC section 6452.1, as enacted by Statutes 2010, chapter 721, section 2, permits taxpayers to make an irrevocable election to report “qualified use tax” on an “acceptable [income] tax return” filed with the FTB in order to make it more convenient for taxpayers to comply with their use tax obligations. RTC section 6452.1, subdivision (d)(2), as enacted by Statutes 2010, chapter 721 defined the term “qualified use tax” to mean a taxpayer’s actual unpaid use tax liability after applying the state use taxes imposed under the Sales and Use Tax Law (RTC § 6001 et seq.) and section 35 of article XIII of the California Constitution, and the local and district use taxes imposed in conformity with the Bradley-Burns Uniform Local Sales and Use Tax Law (RTC § 7200 et seq.) or in accordance with the Transactions and Use Tax Law (RTC § 7251 et seq.) to the taxpayer’s purchases of tangible personal property subject to use tax.

“Current Law

“SB 86 was enacted on March 23, 2011. It amended RTC section 6452.1 to make it more convenient for taxpayers to comply with their use tax obligations by giving taxpayers the option to report their “estimated use tax liabilities,” based upon their AGIs for income tax purposes, for one or more single nonbusiness purchases of individual items of tangible personal property each with a sales price of less than one thousand dollars (\$1000), as determined from a use tax table, instead of calculating and reporting their actual unpaid use tax liabilities (as described above). In addition, RTC section 6452.1, subdivision (d)(2)(A)(i)(II), as amended by SB 86, provides that “the Board shall annually calculate the estimated amount of use tax due according to a person's adjusted gross income and by July 30 of each calendar year make available to [the] Franchise Tax Board such amounts in the form of a use tax table” for inclusion in the instructions to the FTB’s returns and use by eligible taxpayers.

“Regulation 1685.5

“The Board adopted Regulation 1685.5 on July 26, 2011, to prescribe the use tax table that taxpayers may use to estimate their calendar-year 2011 use taxes based upon their AGIs, prescribe the manner in which the Board shall annually calculate the estimated amount of use tax due according to a person’s AGI for calendar year 2012 and subsequent years, and prescribe the format of the use tax tables the Board must make available to the FTB each year. The California Taxpayers Association (CalTax) requested that the Board conduct interested parties meetings to discuss the methodology used to develop the proposed regulation before the Board voted to adopt Regulation 1685.5. The Board’s response to this request, as provided in the final statement of reasons for the adoption of Regulation 1685.5, was that:

[T]he Board did not have adequate time to conduct interested parties meetings before initiating the formal rulemaking process to adopt proposed Regulation 1685.5 because:

- The use tax table provisions were added to RTC section 6452.1 on March 23, 2011;
- The Board needed to adopt a 2011 use tax table and forward it to the FTB for inclusion in the instructions to the FTB’s 2011 income tax returns by the July 30, 2011, deadline specified in RTC section 6452.1; and
- The FTB needs to know that the 2011 use tax table adopted by the Board has been approved by OAL by September 1 and will be effective for use with 2011 income tax returns so that the FTB can include the 2011 use tax table in the instructions to its 2011 income tax returns, which will be sent out for publication and incorporation into return preparation software on September 1, 2011.

However, the Board has already scheduled interested parties meetings to discuss whether the Board needs to amend Regulation 1685.5 before the July 30, 2012, deadline, in which it is required to estimate consumers’ 2012 use tax liabilities based upon their adjusted gross incomes and prepare a 2012 use tax table for transmission to the FTB.

“Proposed Amendments

“Board staff met with interested parties on August 29, 2011, and October 11, 2011, to discuss whether it is necessary to amend Regulation 1685.5 to update the manner in which the Board shall annually calculate the estimated amount of use tax due according to a person’s AGI and make such amounts available to the FTB in the form of a use tax table for calendar year 2012 and subsequent years. As a result of public comments, including comments from CalTax, Board staff recommended that the Board amend Regulation 1685.5 to:

- Clarify that the Board's use tax tables are optional and may only be used to report estimated use tax for nonbusiness purchases of individual items of tangible personal property each with a sales price of less than \$1,000, as provided in RTC section 6452.1, subdivision (d)(2)(A)(i);
- Provide assurance to consumers that if they correctly report their estimated use tax liabilities for their eligible nonbusiness purchases in accordance with the Board's use tax tables, then the Board may not assess the difference, if any, between the estimated use tax liabilities reported in accordance with the Board's use tax tables and the consumers' actual use tax liabilities, as provided in RTC section 6452.1, subdivision (g);
- Add seven additional AGI ranges to the Board's use tax tables for calendar year 2012 and subsequent years and narrow the intervals between the AGI ranges in the Board's use tax tables so that estimated use tax liabilities increase or decrease by smaller amounts between AGI ranges;
- Move the use tax liability factor calculation date from May 1 to June 1 beginning in calendar year 2012 because the United States Census Bureau typically publishes its electronic shopping and mail order house spending data during May of each year;
- Require the Board to make adjustments to the amount of spending at electronic shopping and mail order houses to arrive at total spending on taxable purchases;
- Require the Board to calculate the percentage of income spent on taxable purchases, rather than the percentage of income spent on all electronic and mail order house purchases; and
- Require the Board to use the percentage of income spent on taxable purchases, rather than the percentage of income spent on all electronic and mail order house purchases, to calculate the use tax liability factors for calendar-year 2012 and subsequent years.

“During its December 14, 2011, Business Taxes Committee meeting, the Board determined that staff's recommended amendments are reasonably necessary to update the manner in which the Board shall annually calculate the estimated amount of use tax due according to a person's AGI and make such amounts available to the FTB in the form of a use tax table for calendar year 2012 and subsequent years, and the Board voted to propose their adoption. The objectives of the proposed amendments are to clarify the purpose and use of the Board's use tax tables, help ensure that use taxes due on business purchases are not reported twice, help ensure that the Board uses the most current United States Census Bureau data possible to calculate the use tax liability factors for 2012 and subsequent years, improve the overall precision of the Board's estimated amount of use tax due according to a person's AGI range, and generally encourage consumers to use the Board use tax tables. The proposed amendments are anticipated to provide the following specific benefits:

- Clarify the purpose and use of the Board's use tax tables;
- Help ensure that use taxes due on business purchases are not reported twice;

- Help ensure that the Board uses the most current United States Census Bureau data possible to calculate the use tax liability factors for 2012 and subsequent years;
- Improve the overall precision of the Board's estimated amount of use tax due according to a person's AGI range; and
- Generally encourage consumers to use the Board use tax tables.

"The Board has performed an evaluation of whether the proposed amendments to Regulation 1685.5 are inconsistent or incompatible with existing state regulations and determined that the proposed amendments are not inconsistent or incompatible with existing state regulations because Regulation 1685.5 is the only state regulation prescribing the manner in which the Board "shall annually calculate the estimated amount of use tax due according to a person's adjusted gross income and by July 30 of each calendar year make available to [the] Franchise Tax Board such amounts in the form of a use tax table," as required by RTC section 6452.1, as amended by section 1 of SB 86.

"There are no comparable federal regulations or statutes to Regulation 1685.5.

"Note Regarding Assembly Bill No. (AB) 155 and the Use Tax Liability Factor

"The proposed amendments to Regulation 1685.5, subdivision (b)(2), will require that the Board multiply the percentage of income spent on taxable purchases during the preceding year by 0.37, which represents the estimated percentage of California consumers' total purchases of tangible personal property for use in California from all out-of-state retailers that are made from out-of-state retailers that are not registered with the Board to collect use tax from their customers. AB 155 (Stats. 2011, ch. 313) expanded the use tax registration requirements so that they apply to some out-of-state retailers, including Internet retailers, that were previously not required to register with the Board to collect and remit use tax on their sales of tangible personal property to California customers. However, section 6 of AB 155 provides that the new registration requirements will not be operative until either September 15, 2012, or January 1, 2013, and the Board is currently unable to determine whether the new registration requirements will reduce the percentage of California consumers' total purchases of tangible personal property for use in California from all out-of-state retailers that are made from out-of-state retailers that are not registered with the Board to collect use tax from their customers during 2012 or in subsequent years, and, if so, the extent of such reduction. Therefore, the Board is not proposing to amend Regulation 1685.5 to account for the new registration requirements imposed by AB 155 at this time. However, the Board is continuing to monitor the implementation of AB 155 and considering whether to propose sufficiently related changes to the original text of the proposed amendments to Regulation 1685.5 to account for the enactment of AB 155 or other events that may change the percentage of taxable purchases that California consumers make from unregistered out-of-state retailers during 2012 or subsequent years."

Public Comment:

On January 28, 2012, Donna LeCroy emailed the Board her comment that the proposed amendments to Regulation 1685.5 are unconstitutional because they would require every taxpayer to pay an estimated amount of use tax to the Board regardless of whether the taxpayers actually owed use tax. The Board disagreed with this comment and Board staff noted on the record at the March 20, 2012, public hearing that there is nothing in the proposed amendments that would require a taxpayer to pay a use tax that the taxpayer does not owe. In fact, the amendments adding subdivision (a)(2)(A) to Regulation 1685.5 expressly provide that:

Consumers may elect to use the use tax tables included in the instructions to their FTB returns to report their estimated use tax liabilities for one or more single nonbusiness purchases of individual items of tangible personal property each with a sales price of less than one thousand (\$1,000) on their FTB returns. However, eligible consumers may still calculate their actual use tax liabilities using the worksheets in the instructions to their FTB returns and report their actual use tax liabilities on their FTB returns. Consumers are not required to use the use tax tables included in the instructions to their FTB returns.

Therefore, the Board concluded that Donna LeCroy's comment was the result of a misunderstanding regarding the effect of the proposed amendments and the Board did not make any changes to the proposed amendments in response to Donna LeCroy's comment.